Postal Regulatory Commission

Postal Regulatory Commission
901 New York Avenue, NW
Suite 200
Washington, DC 20268-0001
www.prc.gov

Phone: 202-789-6829
Fax: 202-789-6891

Contact: Gail Adams
gail.adams@prc.gov

Press Release

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Commission Releases Report on the Postal Service's Financial Condition

Despite the slight improvement in liquidity, the Postal Service faces significant financial challenges

Washington, DC – Today the Postal Regulatory Commission (Commission) released its report analyzing the Postal Service's (Postal Service) financial condition for fiscal year (FY) 2015.

In FY 2015, the Postal Service generated its second consecutive annual net operating income. Increases in Competitive product volume and the continuation of the exigent surcharge were the primary causes of these results. The exigent surcharge generated an additional $2.1 billion in revenue greatly mitigating revenue losses resulting from the decline in Market Dominant product volume, and Competitive product volume contributed more than $1 billion in additional revenue. After accounting for non-cash adjustments to the workers' compensation liability, the supplemental payment into the Federal Employees Retirement System, and the Retiree Health Benefit Fund (RHBF) payment, which the Postal Service considers as non-controllable factors, the Postal Service had a total net loss of $5.1 billion in FY 2015.

Although the FY 2015 Integrated Financial Plan included a capital investment budget of $1.5 billion for mail processing equipment, vehicles, and information technology, the Commission's analysis identifies persistent financial challenges for the Postal Service. Significant balance sheet liabilities and off-balance sheet unfunded liabilities for pension and annuitant health benefits remain. At the end of FY 2015, the Postal Service's total liabilities exceeded the total value of its assets by $50.4 billion. This results from several years of net operating losses starting in FY 2007. Although FY 2014 and FY 2015 had a net operating income, the slow replacement of fully depreciated capital assets and substantial personnel related liabilities also contributed to this high net deficiency. Highlights from the FY 2015 balance sheets include:

- Non-current assets comprise 67 percent of total assets, while non-current liabilities only comprise 33 percent of total liabilities.

- Aging capital assets, such as vehicles and equipment, along with the Postal Service's inability to invest in new capital, resulted in a $652 million decline in the value of its property, plant, and equipment.

• Total liabilities increased by $6.8 billion dollars, mainly due to the Postal Service's non-payment of its RHBF statutory obligation and increases in workers' compensation liability.

• Negative net worth indicates that the Postal Service has spent both its initial capital and the debt borrowed from the Federal Financing Bank. Simply put, its debts are no longer secured by its assets.

Because the Postal Service reached the limit of its borrowing authority, all current activity must be financed with internally generated cash, which is generated from or within the business itself. This has severely limited the Postal Service's ability to invest in much needed equipment and other productive assets. The Postal Service's liquidity will be significantly affected by the expiration of the Market Dominant exigent surcharge that the Postal Service intends to remove on April 10, 2016.

The Commission's *Financial Analysis* report also includes an in-depth review of volume, revenue, and cost trends for each class of mail over the previous fiscal year, and describes the trends in attributable and institutional costs. By comparing and analyzing the Postal Service's financial statements for the past 10 fiscal years, the analysis also measures the sustainability and liquidity of the Postal Service and the historic annual growth rates of Postal Service financial statement elements through trend analyses.

Other Highlights for FY 2015 include:

• Market Dominant revenue increased for the second consecutive year despite continuing declines in volumes.

• Competitive products volumes and revenues increased 14.8 percent and 7.5 percent, respectively.

• For the eighth consecutive year, certain products did not cover their attributable costs. These products generated a total negative contribution of $1.2 billion in FY 2015.

• Total attributable costs increased for the first time since FY 2008.

• Average unit total costs continue to increase; however, for the first time since FY 2010, the average unit attributable cost also increased.

• The increase in attributable costs reduced the percentage of total costs that are considered institutional.

• The percentage of volume, revenue, attributable costs, and contribution to institutional costs from Competitive products continues to increase.

• The Postal Service cash position is at the highest level since FY 2007, however significant balance sheet liabilities and off-balance sheet unfunded liabilities for pension and annuitant health benefits threaten the improvements in liquidity.

Download a complete copy of the Commission's *Financial Analysis* report at www.prc.gov.

The Postal Regulatory Commission is an independent federal agency that provides regulatory oversight over the U.S. Postal Service to ensure the transparency and accountability of the Postal Service and foster a vital and efficient universal mail system. The Commission is comprised of five Presidentially-appointed and Senate-confirmed Commissioners, each serving terms of six years. The Chairman is designated by the President. In addition to Acting Chairman Robert G. Taub, the other commissioners are Vice Chairman Nanci Langley and Commissioners Mark Acton and Tony Hammond. Follow the PRC on Twitter: @PostalRegulator